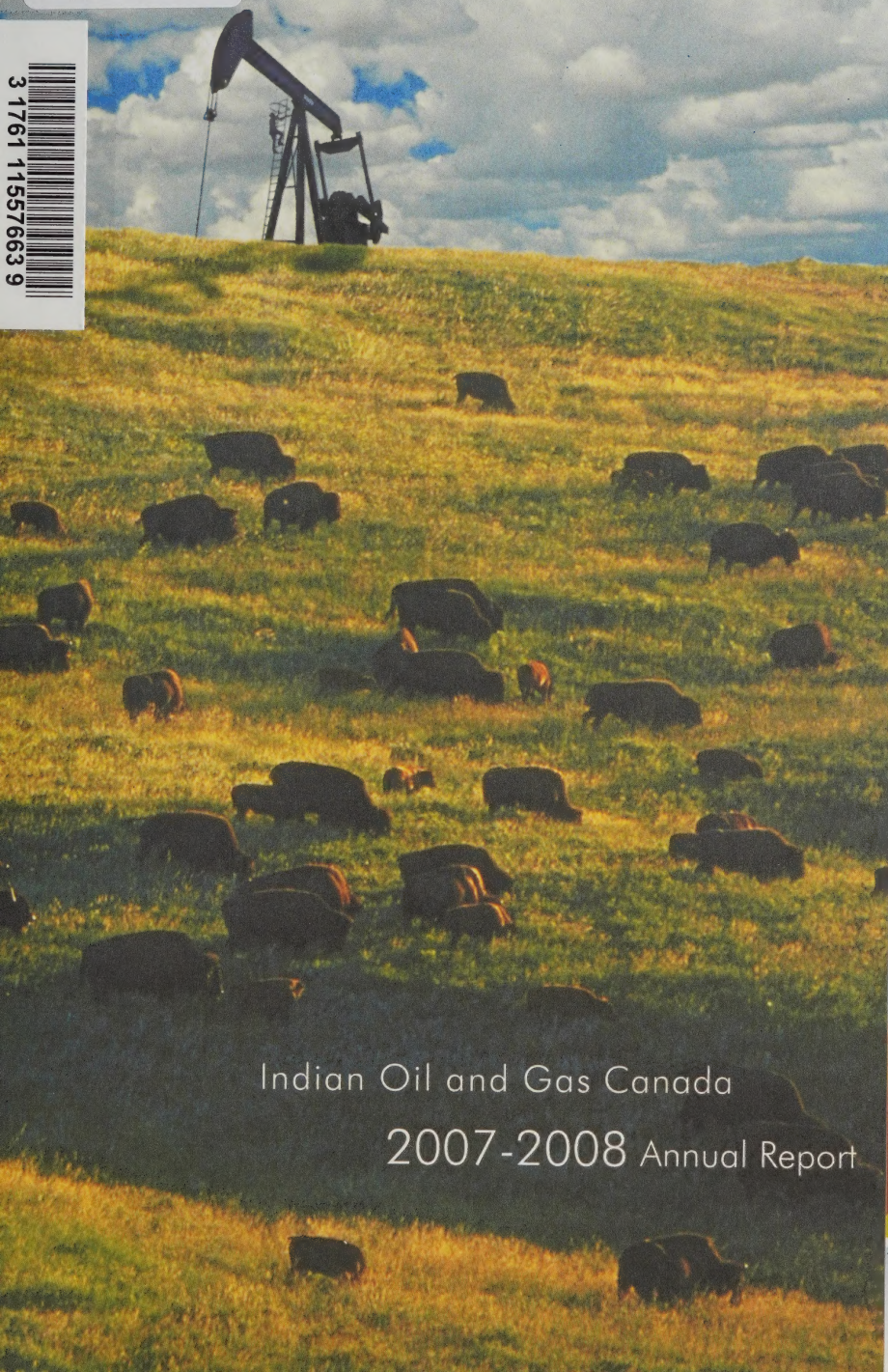


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Indian Oil and Gas Canada
2007-2008 Annual Report

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Mandate:

To fulfill the Crown's fiduciary and statutory obligations related to the management of oil and gas resources on First Nations lands and to further First Nation initiatives to manage and control their oil and gas resources.

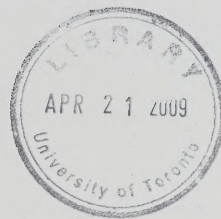
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CEO's Message



Strater Crowfoot
Chief Executive Officer
and Executive Director

It was a pleasure for me to rejoin Indian Oil and Gas Canada (IOGC) in April 2008, when Gregg Smith, who served as CEO/Executive Director of IOGC from 2005 until just recently, made the decision to retire. I was glad for the opportunity to come back and continue our work in support of First Nations. I found that fiscal year 2007-2008 has been one of change, adjustments and challenges, but again, a very busy year for IOGC.

It has been estimated that one in six Albertans are employed by the oil and gas industry. While oil and gas development is branching out to other parts of Canada, in terms of economic development and employment, this level of activity has many benefits for First Nations people and their community development across the country. Overall oil and gas activity on First Nation reserve lands continued to be strong in 2007-2008. As an organization, IOGC responded by continuing to focus on modernization and internal change, targeting specific key initiatives, with the aim of making the best use of the resources available to us.

Of particular note is the number of wells drilled on Indian interest lands this year, a total of 215, which was the highest level in four years. Compensation and rental moneys collected by IOGC on behalf of First Nations remained steady, with \$13 million collected in 2007-2008. This was down slightly from \$14.3 million that was collected in the previous year, but still a strong showing. Oil production from First Nation reserve lands and oil royalties collected on behalf of First Nations were both higher than the previous year, with oil royalties increasing \$14.4 million to \$47.8 million in 2007-2008. Royalties collected from gas and gas products remained almost unchanged as compared to last year, with a total of \$133.3 million collected. This is just slightly more than the \$133 million collected in 2006-2007.

My predecessor, Gregg Smith, made note last year of the substantial drop in total moneys collected by

IOGC on behalf of First Nations, which was mainly attributable to significantly lower gas prices and production. This fiscal year, royalty moneys increased over the previous year total of \$189.5 million to \$202.4 million (including \$5.1 million of TLE 5.08 moneys) collected by IOGC on behalf of First Nations in 2007-2008.

Issues of recruitment and retention of staff continue to be a challenge for IOGC. These same issues have become difficult for many organizations within the oil and gas industry in recent years. In particular, turnover and staffing of several high-demand industry job areas continue to be problematic. IOGC has made significant strides in recruitment and retention in 2007-2008, staffing a number of positions and this work is ongoing. We are concentrating some effort on succession planning, as demographics indicate that future retirements will pose additional challenges. At IOGC, we are very aware that our people are what make this organization what it is, so this is an important concern for all of us.

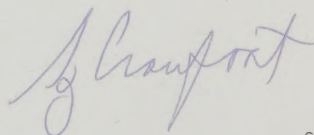
IOGC has continued work on several multi-year key initiatives that are improving its business processes and benefiting oil and gas First Nations and companies. Progress made on IOGC's key initiatives are included in the ensuing pages.

One of our overarching goals relates to supporting and encouraging First Nation control of oil and gas on their reserve lands. This vision has two parts: individual First Nation control and collective First Nation institutional control. When the *First Nations Oil and Gas and Moneys Management Act* (FNOGMMA) came into force in 2006, this was quite a milestone for IOGC and participating First Nation communities. This Act allows First Nations to assume control and management of their oil and gas resources and monies derived therefrom if their community members so

choose. During the fiscal year, the related *First Nations Oil and Gas Environmental Assessment Regulations* were completed. IOGC is working towards implementation of FNOGMMA, developing required codes, laws and agreements specific to each First Nation. This process is also nearing completion. It is estimated that the three participating First Nations will each hold their community ratification votes in early 2009. If the vote is favourable, the resulting transfer may be a reality by mid-2009.

Working in cooperation with the IRC, IOGC has gone full steam ahead in its work modernizing the *Indian Oil and Gas Act* this year and I am pleased to say the progress on this key initiative has been substantial. Over the course of the year, a drafting team worked thoroughly and carefully through each successive draft of the proposed amendments. A Joint Technical Committee also met periodically to iron out any remaining issues with the proposed amendments. The regulations will be drafted separately.

Being back at the helm of such a strong and forward-looking organization gives me cause for much optimism. I am proud of our employees and their commitment to working for the betterment of First Nation communities, and I know I speak for all of us when I say that we are glad to be part of the positive changes that are taking place in oil and gas development for many First Nation communities. We look forward to all that the coming year may bring, and to IOGC becoming a more client-focused organization.



Strater Crowfoot
Chief Executive Officer
and Executive Director

History of IOGC and Related Legislation

The Government of Canada has a broad mandate relating to Indian affairs, which is derived largely from existing legislation and legal obligations arising from section 91(24) of the *Constitution Act*, 1867. The Department of Indian Affairs and Northern Development is entrusted with fulfilling various legal obligations of the federal government to Aboriginal peoples as outlined in treaties, the *Indian Act* and other legislation. Included in this obligation is the management of natural resources on Indian lands, including oil and gas.

Oil and gas development on First Nation reserve lands has been legislated since 1974 under the *Indian Oil and Gas Act* and, before that, under the *Indian Act*. In 1977, the *Indian Oil and Gas Regulations* were revised and brought under the *Indian Oil and Gas Act* from the *Indian Act*. The Regulations were revised again in 1995.

In 1987, Indian Oil and Gas Canada was established, replacing Indian Minerals West, as a dedicated branch within the Department of Indian Affairs and Northern Development to manage oil

and gas development and to further First Nation initiatives to manage and control their resources. In 1993, Indian Oil and Gas Canada was affirmed as a Special Operating Agency to increase its client focus.

About Designation

The *Indian Act* requires First Nation members to approve their reserve land for oil and gas development before reserve land is leased or interests therein are granted for oil and gas. This process is called a designation, where the First Nation "surrenders" the land in a manner which is not absolute to Her Majesty in Right of Canada through a referendum. The *Indian Act* lays out the requirement and process for surrenders and designations. Designations for oil and gas development began as early as 1887, however most occurred during the 1940s and 1950s when oil and gas development nationally was escalating. Currently, about 300 Indian reserves across Canada are designated for oil and gas development.

Statutory Authorities

IOGC operates in accordance with provisions of the:

- *Indian Oil and Gas Act*
- *Indian Oil and Gas Regulations, 1995*

IOGC also operates in accordance with associated federal legislation including provisions of:

- *The Indian Act*
- *The Canadian Environmental Assessment Act*
- Other relevant legislation

IOGC Co-Management Board

Indian Oil and Gas Canada (IOGC) operates under the direction of a Chief Executive Officer/Executive Director who participates as a member of the Board of Directors. The Board was established in 1996 by the signing of a Memorandum of Understanding (MOU) between the Minister of Indian Affairs and Northern Development and the Indian Resource Council (IRC) to co-manage IOGC operations. The Board focuses on areas of collective interest such as IOGC issues, policies, plans, priorities and resources.

Indian Resource Council

A representative voice for over 130 First Nations with oil and gas interests, the Indian Resource Council (IRC) works with, and provides assistance to, First Nation governments, businesses and individuals hoping to take advantage of business and employment opportunities within the oil and gas industry.

In 1987, when the IRC came into being, it existed first and foremost to watch over Indian Oil and Gas Canada. During the ensuing years, this mandate broadened and the IRC realized it could have greater impact by filling other niches. The IRC was given responsibility to begin finding ways and means to build capacity in terms of First Nation governments and business entities so they would have the knowledge necessary to carry on managing the regulatory and business end of oil and gas. Ultimately, the IRC helps bridge the way to greater economic self-reliance for First Nations and their people through increased management of resources on reserve and traditional lands. The IRC is involved in the development and implementation of employment and training programs and the creation of alliances between First Nations and the oil and gas sector.

There are up to nine members on the Board, six of whom are appointed by the IRC Board of Directors and three by the Crown. Two Board members, the Chair of the IRC and the Assistant Deputy Minister of Lands and Trust Services at Indian and Northern Affairs Canada, serve as co-chairs. At the end of the fiscal year, the co-chairs were Councillor Errol Gray of the Aamjiwnaang First Nation in Ontario, the Chair of the IRC, and Ms. Caroline Davis, the Assistant Deputy Minister.

The work of the IRC is guided by basic principles of:

- Supporting member First Nations in their efforts to attain full management and control of their oil and gas resources
- Ensuring the preservation of federal responsibilities established under treaties with First Nations
- Coordinating the promotion of initiatives with the federal and provincial governments, industry, and other groups, to enhance the economic benefits realized by First Nations from resource development
- Encouraging greater development and utilization of First Nations human resources

The IRC is headed by President/CEO Mr. Roy Fox, who reports to a Board of Directors. The IRC Board consists of First Nation elected leaders from Alberta, British Columbia, Ontario, Saskatchewan and New Brunswick. The current chair is Councillor Errol Gray of the Aamjiwnaang First Nation in Ontario.

For more information, visit the IRC's Web site at www.IndianResourceCouncil.ca (available only in English).

KEY INITIATIVE

First Nations Oil and Gas Management

The three Pilot First Nations each intend to hold the required membership vote in 2009 for opting into the *First Nations Oil and Gas and Moneys Management Act*.

Background

The First Nations Oil and Gas and Moneys Management Initiative, also known as the Pilot Project, was launched in 1994 with the aim of enabling several interested First Nations to assume control and management of their oil and gas resources. Over the past decade, the Blood Tribe, Siksika Nation and White Bear First Nation have each been working closely with IOGC to develop their capacity in order to assume control and management of their oil and gas resources.

During capacity development, key findings and complex issues arose which indicated that if the complete transfer of oil and gas resource management to First Nations was to be successful, new enabling legislation would be needed. The three First Nations have been full participants in the design of the two-part optional legislation, the *First Nations Oil and Gas and Moneys Management Act* (FNOGMMA).

The first part of FNOGMMA enables a First Nation to assume management and control of oil and gas exploration and exploitation currently carried out on its behalf by Indian Oil and Gas Canada (IOGC), plus control of the future moneys generated by the oil and gas activity. The second part enables a First Nation to receive and manage all moneys that are held, or that otherwise would be held on their behalf, by Canada. A First Nation may opt into either one or both of the parts.

Status

FNOGMMA, which received royal assent on November 25, 2005, came into force on April 1, 2006. There are two sets of regulations attached to the Act to establish rules and procedures for FNOGMMA implementation. Voting regulations, which came into force on October 19, 2006, relate to conducting a First Nation membership vote and to Canada's authorization of a First Nation's opting-in to FNOGMMA. Environmental regulations, which came into force on January 24, 2008, relate to the roles and responsibilities of conducting environmental assessments on reserve lands subject to FNOGMMA.

The three pilot First Nations are nearing completion on the final documentation of required agreements and intend to hold their FNOGMMA ratification votes in March 2009. If their membership votes in favour of opting into FNOGMMA, these First Nations should take full management and control of their oil and gas within six to eight months of the vote.

IOGC has drafted entrance criteria and a FNOGMMA implementation policy to allow other interested and qualified First Nations to opt into the legislation once the pilot First Nations have completed their ratification votes.

KEY INITIATIVE

Modernization of the Indian Oil and Gas Act and Regulations

A final draft of proposed legislation to modernize the *Indian Oil and Gas Act* was ready by the end of fiscal year 2007-2008.

Fiscal year 2007-2008 saw the continuation, in partnership with the Indian Resource Council (IRC), of the initiative to modernize the *Indian Oil and Gas Act* and the *Indian Oil and Gas Regulations*. The proposed changes are broad and comprehensive and address the immediate needs in the day-to-day management of First Nation oil and gas resources by modernizing current oil and gas regimes. Direct consultations with a majority of the oil and gas producing First Nations assisted in the development of proposed amendments.

Work throughout the year was dominated by the legislative drafting process. To ensure First Nations have an active and meaningful role in the process, two Joint Technical Committees (JTC) have been established and perform very different functions. The JTC #1 is directly involved in the process to draft the changes to the *Indian Oil and Gas Act* and the *Indian Oil and Gas Regulations*. This committee works within the federal legislative process to receive drafts of the legislation and provide comments. It will also be involved in the development of amendments to the *Indian Oil and Gas Regulations*. The JTC #2 will mainly operate at the strategic level, looking at options related to transforming IOGC into a First Nations institution, among other things. This committee will also be looking at oil and gas and governance issues

that fall outside the scope of the JTC #1 as a basis for a continuous change process to the *Indian Oil and Gas Act* and the *Indian Oil and Gas Regulations*.

A key issue that arose in the drafting process was the concern by First Nation members of the JTC and by the IRC with the proposal to include in the legislation the ability to incorporate by reference certain laws of a province. Incorporation by reference is a legal mechanism to create new federal law by referring to existing provincial laws. Canada is proposing to use this technique to ensure that federal laws related to oil and gas conservation, environmental protection and equitable production are in place and are consistent with provincial law. The use of this legal technique does not extend the jurisdiction of the provinces to First Nation lands or resources. To ensure that First Nation members of the JTC had full knowledge of this proposal, a two-day workout was held focusing solely on incorporation by reference.

A detailed process mapping exercise was also launched and completed that signalled the first step in development of regulations and policies required to support the new regulations.

Together with the members of the JTC #1, several drafts of the legislation were developed in 2007-2008, culminating at the end of the fiscal year with a draft that was complete and ready for consideration by parliamentarians for tabling in the House of Commons.

KEY INITIATIVE **Royalty with Certainty**

IOGC developed a gas cost allowance policy that incorporates a methodology for calculating operating costs based on existing data.

Background

Over the past number of years, IOGC's negotiated royalties have reflected First Nations' wishes for more active involvement as the oil and gas business evolves. The Royalty with Certainty Project involves exploring options to simplify IOGC's negotiated royalties while maximizing the benefit to First Nations.

The two main purposes of the simplification are to increase certainty of the value of First Nations royalties and to decrease the timeframe required to obtain these values.

Status

The project is comprised of a four-phase work plan. The first two phases of the project are completed: publicly available price markers for natural gas and for products that result in no loss of royalties to First Nations have been developed. These price markers are used in most new agreements and also in amendments to existing agreements when the lessee and First Nation are interested. To complete the final two phases a cross-divisional IOGC workgroup was formed.

During fiscal year 2007-2008, the workgroup focused on the Phase Three component: developing a simplified gas cost allowance (GCA) model. Through the analysis of a consultant's study of IOGC's gas cost allowance, IOGC has developed and adopted a GCA policy that incorporates a methodology for operating costs based on existing data. In the absence of historical rate data a 10 per cent operating cost as a percentage of capital cost will be used.

For the final phase of this project, IOGC undertook the analyses of multiple variables affecting standardized royalty models. These included previous studies of various existing royalty structures, an analysis of the impact to First Nation leases of the recently announced changes to the royalty regime of the Province of Alberta, and, finally, the proposed direction of legislative changes to the *Indian Oil and Gas Act*. Given the opportunity for forthcoming legislative and regulatory amendments, it was recommended that further simplification to First Nation royalty structures would be addressed through the legislative and regulatory process. Thus, the Royalty with Certainty initiative in its current form, has concluded.

KEY INITIATIVE **Streamlining the Royalty Process**

In fiscal year 2007-2008, the initiative's focus was on policy and system development for the new gas cost allowance processes and for the electronic submission of gas cost allowance data.

Background

The main goal of the project to streamline the royalty process is to ensure that the royalties collected on behalf of First Nations are as accurate and timely as is reasonably possible. The project also supports the

automatic calculation of interest and involves extensive changes to current royalty processes. It includes taking advantage of the technology available for electronic submission of information over the Internet.

IOGC's royalty processes were reviewed in fiscal year 2003-2004. By June 2004, IOGC had developed a new business model with revised business rules, procedures and processes including electronic submission. An implementation plan, complete with process training documentation and change management considerations, was developed as of March 2005. IOGC's system to receive electronic submissions of royalty data went live in April 2005.

Status

In the last year, the initiative's focus has been on policy and system development for the new gas cost allowance (GCA) processes and electronic submission of GCA data. We have completed three of the five phases of the GCA portion of the initiative and are looking at finalizing and implementing it for the 2007 application cycle.

During the year we also completed a policy regarding volumetric verification and validation, a separate part of the initiative. We initiated system development to monitor and verify submitted volumetric data and determine where further validation in the form of desk reviews or audits might be required.

In support of the related key initiative Automation of Interest with Accounts Receivable System, a billing project for calendar years 2004 and 2005 was virtually completed, with only the finalizing of all the accounts receivable remaining. The project involved sending billing packages, each based on a company's royalty reporting activities for January 2004 through December 2005 for an individual Indian reserve. Ultimately, a monthly report summarizing royalty activity and any related interest charges will be developed and sent to companies and an accounts receivable system developed to close off the transactions.

Throughout the royalty streamlining initiative, information letters have been distributed to update industry on the changes and on modifications to their reporting requirements. The information letters and an Electronic Submission User Guide are available on IOGC's website.

KEY INITIATIVE

Automation of Interest with Accounts Receivable System

Since IOGC automated the collection of interest on late land payments, the number of late land payments has been reduced by 51 per cent.

Background

Indian Oil and Gas Canada (IOGC) collects moneys on behalf of First Nations relating to the exploration and production of their oil and gas. Moneys collected fall into the broad categories of land and royalty, with land moneys including things such as bonuses, initial considerations and annual rentals. Royalty moneys are collected on the production of First Nation oil, gas and gas products.

Interest has been collected on late moneys by preparing letters advising companies of outstanding amounts and interest required pursuant to the *Interest and Administrative Charges Regulations*.

IOGC is automating the collection of interest on the late payments of these First Nation trust funds by implementing an accounts receivable system within IOGC's Resource Information Management System (RIMS). Once complete, monthly receivable statements for land and royalty will be generated automatically and sent to companies. A separate statement will also be provided to First Nations. The project is split into two phases, land development and royalty development.

Status

The development of the land statement system was completed and monthly distribution of land statements commenced in May 2006. As a result of the implementation, there has been an increase in compliance with payments generally being made ahead of time and a reduction by 51 per cent of the number of late land payments. The overall response from companies to this initiative has been positive.

Work is continuing on the royalty development phase of the project. In conjunction with the royalty streamlining key initiative, information gathering was undertaken to begin defining the requirements of royalty statement development. A list of issues around the development was compiled and a framework for issue resolution was developed, with some of the issues being resolved during the fiscal year.

Hay-Zama Lakes Wildland Park

Dene Tha' Chief James Ahnassay is proud of the newly dedicated Hay-Zama Lakes Wildland Park in Alberta. He is hoping that the provincial park will attract visitors from around the world and bring eco-tourism jobs to his community, which will diversify the economy of the Dene Tha' First Nation.

The Hay-Zama Lakes Wildland Park is located in the northwest corner of Alberta, about 50 kilometres northeast of Rainbow Lake. The park preserves a wetland of international importance, a major staging ground for waterfowl, and lies on three of the four major North American migration flyways. It is also home to about 600 wood bison, which grew from a herd of just 29 animals that were re-introduced into the area from Elk Island National Park in 1984. Wood bison had been listed as an at-risk species in Alberta.

The park covers an area of 486 square kilometres, almost five townships, and lies between three Indian reserves of the Dene Tha' First Nation: Zama Lake, Hay Lake and Amber River. The Dene Tha' First Nation community relies on the wildlife, fish and waterfowl from the park area as a primary source of food.

A Hay-Zama committee was established in 1985 to manage the development of land that would eventually become a provincial park. The area, like the adjoining Indian reserves, is underlain by oil and gas reservoirs. The Dene Tha' First Nation and Indian Oil and Gas Canada are represented on the committee, as are conservation groups, the oil and gas industry and the Alberta government.

There are 23 producing oil wells, 10 gas wells and one water disposal well in the park. Special precautions are taken by the oil and gas industry to keep the wellheads clear of the surrounding water and protect the sensitive environment. No new drilling is taking place, and it is planned that all existing wells will be abandoned and their sites reclaimed by 2017.

On May 28, 2008, a ceremony to dedicate the provincial park and to twin it with the Dalai Lake National Nature Reserve in China was held in the Dene Tha' First Nation school at Chateh (previously known as Assumption), on the Hay Lake Indian reserve. People attending the ceremony included members of the committee, First Nation members, provincial and federal dignitaries, and representatives of the sister nature reserve.

Photo credit: Anne-Marie Jackson, The Edmonton Journal
Photo of two oil pumpjacks in the Hay-Zama Lakes Wildland Park in the northwest corner of Alberta.



Spotlight: First Nation-owned Oil and Gas Companies

First Nations in Alberta and Saskatchewan own 20 oil and gas companies with subsurface agreements on Indian reserve lands.

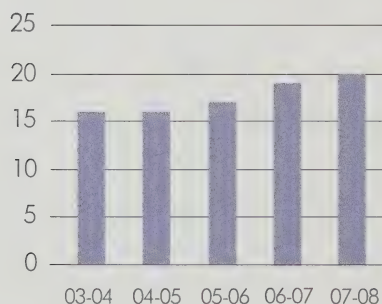
Many First Nations have created their own oil and gas companies as a way to become more involved in the industry and to potentially reap more rewards than by passively collecting royalties.

At the end of fiscal year 2007-2008, First Nations in Alberta and Saskatchewan owned 20 oil and gas companies with subsurface agreements on Indian reserve lands. Typically, these First Nation-owned oil and gas companies hold leases on their own First Nation's lands and enter into joint ventures with operating oil and gas companies.

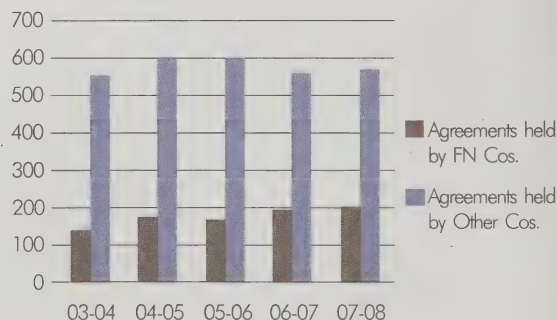
2007-2008 Fiscal Year End Snapshot

	Alberta	Sask.	Total
Number of First Nation-owned companies holding subsurface agreements on Indian reserves	15	5	20
Number of subsurface agreements held by these companies	132	71	203
Area of these subsurface agreements (hectares)	92,600	28,600	121,200

Number of First Nation-Owned Companies Holding Subsurface Agreements on Indian Reserves over Last 5 Fiscal Years



Number of Subsurface Agreements Held by First Nation-Owned Companies and Other Companies on Indian Reserves over Last 5 Fiscal Years





The Western Canada Sedimentary Basin is the most prolific hydrocarbon region of Canada, accounting for the vast majority of crude oil and natural gas. The map shows the approximate boundaries of the Western Canada Sedimentary Basin.

Areas within the Basin have the potential for production. Areas outside the Basin have no potential for production either now or in the foreseeable future.

Canada's Seven Hydrocarbon Regions



ALASKA

(United States of America)

KALAALLIT NARSARUAQ

(DENMARK)

YUKON
TERRITORY

NORTHWEST TERRITORIES

NUNAVUT

BRITISH
COLUMBIA

ALBERTA

MANITOBA

SASKATCHEWAN

ONTARIO








Canada's seven hydrocarbon regions are those areas of Canada that are composed of sedimentary rock, which is the type of rock that can hold oil and natural gas.

UNITED STATES OF AMERICA

Legend

Indian Reserve

Hydrocarbon Region:

-  Pacific Margin
-  Intermontane
-  Western Canada Sedimentary Basin
-  Arctic Margin
-  Arctic Cratonic
-  Eastern Cratonic
-  Atlantic Margin

Indian Oil and Gas Canada is responsible for managing the oil and gas from surrendered or designated First Nation reserve lands across Canada.

There are about 3000 First Nation reserves in Canada, almost all of which are south of the 60th parallel.

First Nation reserve lands must be “designated” for the development of oil and gas pursuant to the *Indian Act*. Currently there are about 300 such designated reserves spread across British Columbia, Alberta, Saskatchewan, Manitoba and Ontario, with one in the Northwest Territories.



Operations

Indian Oil and Gas Canada has four distinct units that regulate the exploration and development of First Nations oil and gas resources. The Executive Unit is accountable for overall agency planning and direction, consultation, policy development, pilot project management, communications and overall executive and legal services. The Land Unit issues and administers agreements on First Nations lands. The Production Unit monitors production from First Nation lands and ensures the accurate collection of royalties. The Planning and Corporate Services Unit is responsible for corporate planning, finance, administration and human resources.

Executive

The Executive Unit, headed by the Chief Executive Officer, focuses on:

- Setting corporate direction and strategy
- Implementing the directives of the IOGC Board of Directors
- Developing operational policy (including legislative/regulatory amendments) and consultation
- Performing communications and corporate executive services
- Managing the pilot project

Operational Policy Group Functions

- Supporting operational policy development
- Supporting new legislation, specifically the *First Nations Oil and Gas and Moneys Management Act*
- Advancing proposed changes to the *Indian Oil and Gas Act* and *Indian Oil and Gas Regulations, 1995*
- Involving key parties to obtain input in the above

Pilot Initiative Group

- Managing and supporting the First Nations Oil and Gas Management Initiative, referred to as the "Pilot Project"
- Liaising between IOGC and the pilot First Nations and with other areas of government
- Managing consultation sessions necessary to progress on the initiative

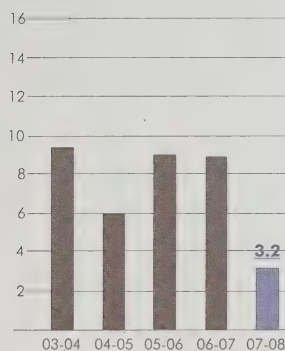
Communications/Executive Services Functions

- Disseminating information to First Nations, oil and gas industry companies, the public and government
- Developing and preparing briefings on IOGC issues for senior DIAND/IOGC officials and the minister
- Preparing communications plans, strategies, reports (including the Annual Report) and correspondence on IOGC activity
- Maintaining IOGC's external website, www.iogc.gc.ca

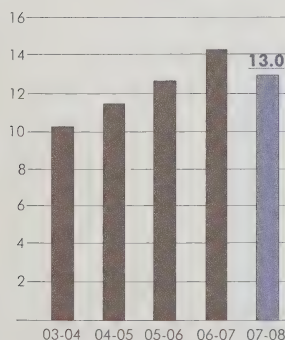
Land

The Land Unit contains three groups: Negotiations and Subsurface Land Contracts and Administration; Environment; and Research and Surface Land.

Bonus Moneys Collected on Behalf of First Nations (\$ millions)



Compensation and Rental Moneys Collected on Behalf of First Nations (\$ millions)



Negotiations and Subsurface Land Contracts Group

Negotiations Functions

- Identifying, developing and promoting disposition options with First Nations to promote and increase exploration and development of First Nations oil and gas resources
- Assessing proposals by interested companies against IOGC's disposition policy
- Assisting First Nations in reaching agreements with companies by providing negotiation and facilitation expertise to support the negotiation process
- Providing information concerning subsurface leasing trends, sales prices and related policies to all interested stakeholders
- Providing advice to Treaty Land Entitlement (TLE) First Nations, and working together with various federal and provincial government departments and industry to facilitate the implementation of the TLE process

In fiscal year 2007-2008, there were 25 negotiated subsurface agreements (Permits and Leases) initiated, with an associated area of 51,000 hectares. There were also 18 negotiated amendments to existing subsurface agreements initiated during the year. Approximately 25 negotiations were still ongoing at the end of the fiscal year.

The above negotiations resulted in the collection by IOGC of \$3.2 million in bonus moneys on behalf of First Nations during the fiscal year.

The negotiations staff was also actively involved in IOGC's Royalty with Certainty key initiative, which is tasked with exploring options to simplify IOGC's negotiated royalties. Additionally, the group assisted the FNOGMMA First Nations in their preparation for the potential transfer of oil and gas management and control from IOGC to these First Nations. The group also continues to work on solutions to handle the increasing work load from high volumes of regular operations as well as increasing TLE roles and responsibilities.

Subsurface Land Contracts and Administration Functions

- Drafting and ensuring the execution of oil and gas agreements and amendments in accordance with negotiated terms and conditions and with federal government regulations
- Monitoring and verifying contractual commitments
- Administering subsurface oil and gas agreements throughout their lives, including handling financial commitments (excluding royalties) and First Nation suspense accounts

During fiscal year 2007-2008, the subsurface land contracts and administration staff handled 18 amendments to subsurface agreements and issued 25 negotiated subsurface agreements. The group also processed 8 lease selections, when grantees selected permit areas to convert to leases. A permit gives a grantee the right to explore for but not produce oil and gas, while a lease gives the grantee the right to produce. The group handled 134 lease continuances (standard leases have terms of five years). There were 25 agreements that expired or otherwise terminated. At year end, staff was administering about 768 subsurface agreements with an associated total area of 468,000 hectares, compared to about 750 agreements and 500,000 hectares at the end of the previous year.

Staff also monitored 160 Directions to Comply issued by the Production division during the year. Pursuant to the *Indian Oil and Gas Regulations, 1995*, IOGC may issue a Direction to Comply when a contract holder has not paid an amount due under the contract, or has failed to comply with specific terms in the contract or with the *Indian Oil and Gas Regulations, 1995*. Staff also handled 75 assignments of contracts from one company to another, company name changes/amalgamations affecting 574 agreements and company address changes affecting 533 agreements.

The subsurface Land Contracts and Administration staff continues to be actively involved in two key initiatives, Automation of Interest with Accounts Receivable System, and the implementation of FNOGMA in the form of assisting the FNOGMA First Nations.

Environment Group Functions

- Ensuring all proposed oil and gas surface facilities and activities, including seismic and construction of surface leases, access roads and pipeline rights-of-way, undergo an environmental assessment or screening as required by the *Canadian Environmental Assessment Act (CEAA)*
- Imposing environmental protection terms so that oil and gas companies comply with federal and provincial legislation
- Reviewing environmental audits and performing field inspections where necessary at surface facilities to monitor industry compliance with the environmental terms of surface agreements
- Providing information and assistance to First Nations, industry representatives and other stakeholders
- Conducting reclamation inspections with First Nations and industry and ensuring the adequacy of reclamations prior to the surrender of surface agreements

During fiscal year 2007-2008, environmental staff initiated and completed the reviews for 256 environmental assessments pursuant to CEAA and reviewed 627 environmental audits. Staff carried out a total of 61 field reclamation inspections required prior to IOGC granting surrender of a contract. Staff also conducted field visits for compliance with environmental terms and conditions where necessary.

The environment group prepared new a procedure entitled Pipeline Right of Way Environmental Audit Requirements. This and other procedures and forms are available on IOGC's Web site at www.iogc.gc.ca.

The unit's next focuses will be to continue to update and develop information letters and procedures. As part of the Land Division's Statutory Obligations key initiative, the Environment Unit is tasked with developing and implementing an Environmental Audit and Reclamation and Surrender Management Frameworks. The Unit plans to have the Environmental Audit Framework developed and in operation by the end of the 2008-2009 fiscal year.

Surface and Research Group

Surface Functions

- Drafting and ensuring the execution of all surface agreements in accordance with negotiated terms and conditions and federal government regulations
- Administering all surface agreements throughout the life of the agreement, including financial commitments, rent reviews, assignments and surrenders
- Training and working together with First Nations and industry regarding surface dispositions

During the year, the surface staff initiated 228 surface agreements (excluding Federal Real Property Act (FRPA) agreements). These included 136 surface leases and 92 rights of way to install pipelines; in addition, 12 exploratory licences to shoot seismic were issued. At the end of fiscal year 2007-2008, surface staff was administering 4,298 active and pending surface agreements, including 2,940 surface leases; this includes 169 new FRPA agreements. This compares to managing 4,009 agreements including 2,753 surface leases at the end of the previous fiscal year.

During the year, emphasis was placed on reducing monies in suspense. By year end the amount in suspense relating to surface agreements was reduced by approximately one-half to just over \$800,000.

Research Functions

- Verifying legal title and status of minerals for surrendered and designated Indian reserve lands prior to disposition
- Verifying legal title and acreage leased by all parties (this may entail review of title for non-reserve lands) to determine the First Nation interest for pooling purposes and to ensure the production spacing unit is complete
- Providing mineral title status of Indian reserve or former Indian reserve land for the purposes of monitoring activity, land claims, and litigation

During fiscal year 2007-2008, the research area lost both staff members and one was replaced midway through the year. Focus was placed on training particularly with respect to pooling. In this pooling process, many spacing units are 100% First Nation interest while others are partial interest. Where the First Nation lands are partial interest, they are pooled with other lands in the spacing unit based on acreage and a determination is made of the First Nation's share of production from the well, expressed as a percentage.

Summary of Negotiated Subsurface Permits Initiated during FY 2007-2008*

First Nation	Company	Area Disposed (Hectares)
Loon River Cree (AB)	Harvest Operations Corp.	1,069.37
Louis Bull (AB)	Maverick Oil & Gas Ltd.	1,887.83
Tsuu T'ina Nation (AB)	Tsuu T'ina Energy Corporation	3,200.00
Total		6,157.20

Summary of Negotiated Subsurface Leases Initiated during FY 2007-2008

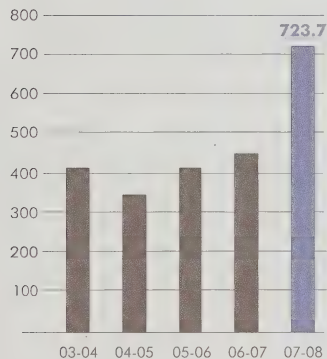
First Nation	Company	Area Disposed (hectares)
Alexander (AB)	Wangler West Energy Corp.	256.00
Bigstone Cree Nation (AB)	Bronco Energy Ltd.	10,801.74
Blood (AB)	Bowood Energy Corp.	510.30
Horse Lake First Nation (AB)	Tusk Energy Corporation	3.09
Kehewin Cree Nation (AB)	Kehewin Resources Ltd.	3,440.70
Little Pine (SK)	Blue Hill Energy Inc.	392.25
Montana (AB)	Rockyview Energy Inc.	512.00
Samson (AB)	Rockyview Energy Inc.	59.20
Stoney (AB)	Petro-Canada	1,024.00
Tsuu T'ina Nation (AB)	Tsuu T'ina Energy Corporation	256.00
Total		17,255.28

* A total of 3,480.09 hectares of permit lands were converted to 8 leases during fiscal year 2007-2008.

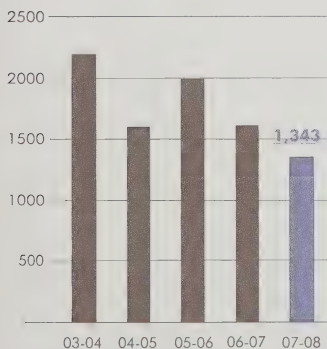
Production

The Production Unit includes three distinct groups: Engineering/Geology, Royalties and Informatics.

Oil Production from
First Nation Lands
(Thousand cubic metres)



Gas Sales Volumes from
First Nation Lands
(Million cubic metres)



Engineering/Geology Group Functions

- Dealing with volumetric compliance, production monitoring, economic evaluation and reservoir engineering
- Providing technical evaluation as part of the review and processing of leases at the end of their primary and succeeding terms

The Compliance activities include:

- Ensuring that production volumes are measured accurately and reported correctly and inspecting production equipment located on reserves to ensure operation in an environmentally sound manner
- Monitoring the drilling and status of wells around reserves to identify situations where First Nations oil and gas resources are subject to the risk of being drained and taking appropriate measures to lessen the risk of drainage
- Ensuring that all necessary documents required by the *Indian Oil and Gas Regulations, 1995* and which pertain to drilling, servicing and abandoning wells in which a First Nation has a royalty interest, are provided by permittees and lessees
- Reviewing technical applications of various kinds which companies submit to the provincial regulatory authorities and which could potentially impact First Nations reserve lands

During fiscal year 2007-2008, IOGC received 76 Notices of Application/Notices of Hearings from the Alberta and Saskatchewan regulatory authorities regarding drilling and operations. Six of these applications pertained to areas on Indian interest lands and were reviewed by technical staff.

During the fiscal year, 215 wells were drilled (plus one in progress at year-end) on 18 Indian Reserves in Alberta and four reserves in Saskatchewan. As of March 31, 2008 these wells included 105 oil, 72 gas, eight abandoned and 30 cased. Many of the cased wells will be declared as either oil, gas or abandoned in subsequent months. In drilling these wells, the oil and gas industry invested \$86.8 million and drilled a total of 236 kilometres of wellbore.

The Reservoir Engineering activities include:

- Providing yearly revenue forecasts to First Nations and the regional offices for budgeting purposes
- Evaluating oil and gas leases for continuance
- Processing applications to abandon wells and to convert wells for water disposal, fluid injection or use as observation wells
- Providing advice to First Nations with respect to the economics presented by companies in support of their proposals for developing First Nations lands
- Estimating the recoverable volumes of oil and gas under Indian Reserves and maintaining current records of this information (known as the hydrocarbon resource inventory)

• A total of 174 lease continuance applications were handled during fiscal year 2007-2008. About 75,000 hectares of land under these leases were continued while about 24,000 hectares were terminated. The terminated lands are available for re-lease.

During the fiscal year, four wells were approved for abandonment. At the Sucker Creek Indian Reserve a horizontal well was converted for use as a water injection well for a pilot water-flood project. At the time of writing, the oil production was reported by the operator to be responding well to water injection into this heavy oil pool.

Another noteworthy project was the completion by Bronco Energy of their oil battery at the Wabasca Indian Reserve No. 166. The battery is used to separate the oil and water which are produced from a reservoir containing very heavy oil within the Athabasca oil sands area. The company now plans to modify the production method by injecting a polymer with the injected water. This has been done elsewhere in the area, on provincial Crown lands. The idea is to thicken the injected or displacing fluid, which provides better recovery of the displaced fluid, i.e. the oil. Also, through the extensive drilling which has taken place in the last

couple of years, an oil deposit has been mapped elsewhere on the Bigstone Cree Nation reserve lands, which is in a shallower formation and contains a less mobile, i.e. more viscous or thicker form of oil. Recovery of the oil from within this formation might be achievable by the application of a thermal recovery method, such as injecting steam into the formation. This idea is currently being investigated by the lessee.

Royalty Group Functions

- Ensuring the accurate collection of royalties and subsequent reconciliation of accounts
- Reporting results of reconciliation process to First Nations and companies to resolve variances
- Monitoring royalties collection for Treaty Land Entitlement lands in Saskatchewan
- Verifying reported data to ensure accuracy and completeness
- Ensuring monthly electronic submissions of royalty statements and supporting documents from companies
- Performing assessments of monthly royalties due within defined timelines
- Ensuring receipt of annual gas cost allowance applications and approving allowance values to be deducted from royalties
- Pursuing resolution of royalty overpayments or underpayments in a timely manner
- Conducting field and facility inspections and examinations as required to ensure claim costs or deductions are accurate and fall within prescribed regulations and guidelines
- Identifying companies that need to be examined in the areas of pricing, volume and and gas cost allowance
- Familiarizing First Nations with royalty processes, including assisting in training of Pilot First Nations in monitoring royalties and developing management reports
- Training of company personnel in accurate royalty reporting

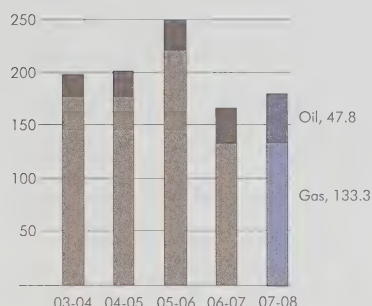
During fiscal year 2007-2008, royalty staff managed over 3000 royalty entities monthly and 550 gas cost allowance applications.

\$2.6 million was collected based on 12 examinations affecting nine Indian reserves and nine companies. Of these examinations, ten dealt with gas and/or product pricing, four with gas cost allowance, and five with oil pricing.

Informatics Group Functions

- Maintaining the local area network and corporate data systems used by IOGC
- Provision of support for corporate software including finance, word processing, spreadsheet and graphics-based programs
- Providing IT assets used by IOGC

Royalty Revenues from First Nation Lands (\$ Millions)



Rising Prices during Fiscal Year 2007-2008

Crude Oil Prices

World oil prices increased dramatically in 2007 and especially in 2008. In January 2007, the monthly average of the New York Mercantile Exchange's (NYMEX's) light, sweet crude oil contract was \$US 54.15/barrel. For December 2007, the price was \$US 91.62/barrel, and in March 2008, the price was \$105.42/barrel.

There are a number of reasons for this dramatic increase in crude oil prices. One reason is the relatively tight balance between demand and supply for crude oil, with demand increasing but supply increases slowing. Additionally, the US dollar's depreciation resulted in increased purchasing power for a barrel of oil, which is generally denominated in US dollars, and OPEC members desired to increase prices to keep the purchasing price from falling. Another reason is the geopolitical risk premium attached to areas due to events such as Iran's testing of missiles and the political unrest in Iraq. Lastly, speculators have also contributed to the prices being driven higher.

Forecast crude oil prices are expected to remain at the \$US 115/barrel level (or higher) for the remainder of 2008 and increase slightly through 2010.

Natural Gas Prices

In December 2005, there was a sharp spike in natural gas prices in the order of \$11.88/gigajoule (Canadian dollar), largely as a result of supply disruption caused by Hurricane Katrina. Prices dropped sharply after US Gulf Coast offshore rigs, damaged during the hurricane, were repaired and came back on line. Since mid-2006, natural gas prices have remained relatively constant, although they have continued to show some seasonal variation.

Recently, however, natural gas prices have also seemed to increase. In December 2007, the benchmark AECO "C" gas price was reported as \$6.1341/gigajoule, while for March 2008, it was \$8.72/gigajoule.

Reasons for the recent increase in natural gas prices include declining supply from Western Canada, rising amounts of gas in storage, and increased liquefied natural gas (LNG) imports at high prices into the US earlier in 2008.

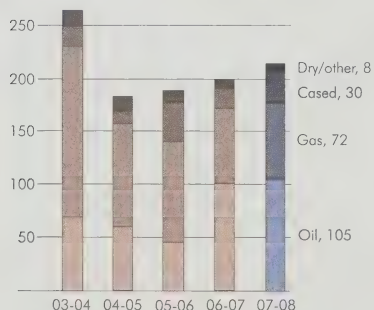
Canadian (and US) natural gas prices have already come off their 2008 high, and the forecast for the second half of 2008 is for increased supply of gas in the US and a slight decline in gas prices, which is expected to persist into 2009.

First Nation Interest Wells Drilled from April 2007 through March 2008

Reserve	Number of Wells Drilled				Total
	Oil	Gas	Cased	D&A*	
Alexander #134, AB	0	0	0	1	1
Alexis #133, AB	0	0	1	0	1
Beaver Lake #131, AB	0	3	0	1	4
Carry the Kettle #76-33, SK	0	31	0	0	31
Cold Lake #149, AB	2	0	0	0	2
Hay Lake #209, AB	2	1	1	0	4
Kapawe'no #230, AB	1	0	0	0	1
Little Pine #116, SK	5	0	0	0	5
Louis Bull #138B, AB	1	4	1	0	6
Loon Lake #235, AB	2	0	3	0	5
O'Chiese #203, AB	0	4	0	0	4
Onion Lake #119-1, SK	44	1	2	0	47
Puskiakiwenin #122, AB	3	0	1	0	26
Samson #137, AB	0	3	1	0	4
Seekaskootch #119, SK	4	0	4	0	8
Siksika #146, AB	0	23	0	0	23
Stony Plain #135, AB	0	0	1	1	2
Sunchild #202, AB	0	2	0	0	2
Unipouheos #121, AB	16	0	0	0	16
Wabamun #133A, AB	0	0	1	1	2
Wabasca #166, AB	25	0	14	3	42
Wabasca #166D, AB	0	0	0	1	1
Total	105	72	30	8	215

* Dry and Abandoned

Wells Drilled on First Nation Lands



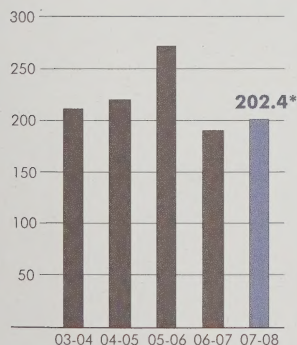
Indian Reserves with Oil and/or Gas Production During FY 2007-2008

Province	Treaty Area	Number of Indian Reserves
Alberta	7	0
British Columbia	0	1
Saskatchewan	1	2
Manitoba	0	16
Ontario	0	0

Planning and Corporate Services

Planning and Corporate Services (PCS) is headed by the Director, Planning and Corporate Services. PCS's key responsibilities include provision of services that relate to administrative policy, human resources, finance, contracts and administration. The unit also manages and coordinates planning for the organization resulting in a Management Plan and acts as secretariat to support IOGC Co-management Board operations.

**Total Moneys Collected
on Behalf of First Nations
(\$ millions)**



* The fiscal year 2007-2008 total includes \$5.1 million of TLE 5.08 moneys collected and paid to the province of Saskatchewan.

Human Resources Group Functions

- Administering human resource items related to IOGC's Separate Employer status
- Human resources planning
- Recruitment and staffing
- Labour relations
- Compensation and benefits
- Training and career development
- Classification

During the fiscal year, the existing performance management program was re-designed. It now allows for a clearer picture of the performance commitments and results expected from employees. The new program now allows for performance pay for employees who are at the maximum of the salary band and are rated at fully satisfactory in the performance rating.

At year end, IOGC had 73 staff with 47 percent of employees being of Aboriginal descent.

Contracts and Administration Group Functions

- Handling the administration of contracts
- Managing records and information
- Managing the facilities
- Handling all purchases
- Overseeing the administration of security
- Handling of access to information requests
- Maintaining the resource library

During fiscal year 2007-2008, IOGC entered into procurements for a total of \$3.1 million for a variety of services and purchases to support required oil and gas operations.

Finance Group Functions

- Providing corporate financial service to IOGC in the areas of accounting operations, financial systems, budget allocation, management variance reporting and funding to pilot First Nations for oil and gas initiatives
- Administering the decentralized IOGC budget
- Collecting and processing bonus, lease and royalty payments to First Nations trust accounts through IOGC's Resource Information Management System (RIMS) into the department's Trust Fund Management System

During the fiscal year, \$202.4 million was collected on behalf of First Nations including \$5.1 million for TLE 5.08 leases.

During the year, enhancements were designed and implemented to the land and finance subsystems, process maps were updated and work began on defining royalty statement requirements.

Effects of the Tight Labour Market

The tight labour market in the Alberta oil and gas sector continues. Many companies, especially those in the oil and gas sector, have combated the increasing shortage of skilled workers with increased wages, benefits and perquisites to attract workers from other companies, other sectors and other provinces and countries.

Indian Oil and Gas Canada has not been immune to this environment and has faced significant challenges in recruiting technical and professional staff to fill vacant positions, especially engineers, landmen/negotiators, contracts analysts and environmental specialists. These positions continue to be in high demand and are expected to remain so in the foreseeable future.

IOGC continues to address these labour market challenges through its compensation plan and recruitment and retention practices. IOGC has broadened its area of competition for all jobs, making them open to workers from across Canada. IOGC is working to recruit new graduates and develop their skills. The organization is also pursuing new ways to retain staff once hired. These initiatives, coupled with ongoing work to pursue new ways of doing business, will help IOGC to increase efficiencies and address workload and labour challenges.

Financial Operations 2007-2008

Funding - Expenses, Contributions & Transfers

\$11,677,532

Expenses

Salaries

\$6,506,114

Operations & Maintenance

Inventory Management	74,210
Environment	25,575
Negotiations (Disposition & Amendment)	58,667
Agreement Management	61,101
Royalty	734,671
Compliance	786,569
Corporate Management	624,294
Informatics	109,829
Direct Operations Support	551,989
Policy Management	215,702
Litigation	1,089
IOGC Board	<u>2,344</u>

Total Operations & Maintenance

\$3,246,040

Contributions & Transfers

IRC Partnership	500,000
IOGC Board	315,000
First Nations Oil & Gas Management Initiative	978,018
Other Contributions & Transfers	<u>98,000</u>

Total Contributions & Transfers

\$1,891,018

Total Expenses, Contributions & Transfers

\$11,643,172

Surplus/Deficit

\$34,361

Revenues Collected on Behalf of First Nations

Royalties	\$181,027,975
Bonus	\$3,211,915
Compensation and Rentals	\$12,987,631
Treaty Land Entitlement 5.08	<u>\$5,137,203</u>

Total Revenues Collected on Behalf of First Nations

\$202,364,724



Indian Oil and Gas Canada

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